



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## **SUMMARY OF DISCUSSION BY NON-QUORUM ARIZONA STATE RETIREMENT SYSTEM (ASRS) BOARD MEMBERS, ASRS STAFF, PRESENTERS, AND PUBLIC**

**Friday, December 2, 2016  
8:30 a.m.**

A non-quorum of the ASRS Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Jeff Tyne, Acting Chair of the ASRS Board, called the discussion to order at 8:32 a.m.

The discussion was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

### **1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Jeff Tyne, Acting Chair  
Professor Dennis Hoffman (via teleconference)  
Dr. Richard Jacob (via teleconference)  
Mr. Tom Manos

Five vacant positions.

When the discussion was called to order, a quorum was not present for the purpose of conducting business. Mr. Jeff Tyne, Acting Chair, announced the meeting would move forward without a quorum to provide an opportunity for discussion of important issues and although there will be no items taken action on, there may be some items the Board can develop a consensus to provide direction to staff.

### **2. Approval of the Minutes of the October 28, 2016, Public Meeting of the ASRS Board**

Mr. Jeff Tyne suggested the approval of the Minutes of the October 28, 2016 Public meeting of the ASRS Board be postponed until the next available meeting when a quorum is present.

### **3. Presentation, Discussion, and Appropriate Action Regarding ASRS 2017 Legislative Initiatives and Legislative Update**

Mr. Patrick Klein, Assistant Director, External Affairs Division, introduced the topic and turned the discussion over to Mr. Nick Ponder, Government Relations Officer, to provide an update on the legislative initiatives. Mr. Ponder reviewed the Senate and House makeup, including

committee assignments, and provided an update on the ASRS legislative initiatives. Mr. Ponder announced bill folders have been opened on all six legislative initiatives. He has received five of the six back and is currently reviewing them.

#### **4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Investment Program Updates**

Mr. Karl Polen, Chief Investment Officer, addressed the Board regarding the ASRS investment program updates for the period ending September 30, 2016, highlighting specific areas of interest and concern. Mr. Polen presented information on the following items: ASRS Fund Positioning; Investment Management Division (IMD) Investment House Views; IMD Organization, Projects, and Asset Class Committee Activities; and the State Street Risk Report for September 30, 2016.

In addition, Mr. Polen announced there were a couple of RFPs coming up in 2017. Proxy Voting is currently underway and the ASRS is required to review the Custody Bank relationship which is at the end of its 5-year contract. Also, early next year, the Strategic Asset Allocation (SAA) will be updated and brought to the Investment Committee and the Board for approval. The current plan is for the SAA to be presented in February, 2017.

#### **5. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program – Includes Total Fund Q3-16**

Mr. Allan Martin, Consultant, NEPC, addressed the Board regarding NEPC's independent reporting, monitoring, and oversight of the ASRS Investment Program including Total Fund performance through September 30, 2016.

As of September 30, 2016 the Total Fund's market value was approximately \$34.5 billion.

For the one-year period ending September 30, 2016, the Total Fund returned 9.0% (net of fees), outperforming the Interim SAA Policy by 0.5%. For the three-year period, the Total Fund produced a return of 6.4% per annum, outperforming the Interim SAA Policy by 1.0%. Over the past ten years, the Total Fund has returned 5.9% per annum, and since inception, the portfolio's performance is 9.7%.

Mr. Martin and Mr. Polen responded to questions from the Board.

#### **6. Presentation, Discussion, and Appropriate Action Regarding the Arizona State Retirement System's Comprehensive Annual financial Report (CAFR) for Fiscal Year 2016**

This agenda item was moved to the January 27, 2017, meeting.

## **7. Presentation, Discussion, and Appropriate Action Regarding ASRS Valuations, including Potential Implementation of Actuarial Audit Recommendations**

Mr. Joe Newton and Mr. Paul Wood of Gabriel, Roeder, Smith and Company (GRS) were in attendance and summarized the results of the 2016 ASRS valuations.

### **a. The ASRS Pension Plan and Health Insurance Valuation**

GRS addressed the Board regarding the ASRS Pension Plan and Health Insurance and presented charts summarizing the contribution rates and the funded status. The recommended contribution rate dipped slightly from 11.34% to 11.21% for each the employer and the employee. The market value funded status was reported as 74.2%, a decrease from 2015, and the actuarial value was reported as 77.6%, an increase from 2015. *(Note: After incorporation of both the audit recommendations and the updated CAFR figures, the market value funded status is 74.4% and the contribution rate remained the same).* GRS also presented their analysis of implementing recommendations resulting from the Actuarial Audit GRS performed (presented to the Board June 27, 2014), as well as changing the actuarial cost method to Entry Age Normal.

### **b. The ASRS System Valuation and Actuary's Recommendation Regarding 13th Checks for Retired System Members**

GRS provided information regarding accrued liabilities, market value of assets and funded status for the System. The funded status for the System as of June 30, 2016, was reported as 72.4%, a decrease from 2015. Based on the results, there will be no additions to the 13<sup>th</sup> check or supplemental credit balances.

### **c. The ASRS Long Term Disability (LTD) Valuation**

GRS addressed the Board regarding the ASRS LTD Valuation. The recommended contribution rate increased from 0.14% in 2015, to 0.16% in 2016 and the funded status fell from 79.1% to 70.1%.

### **d. The ASRS Alternate Contribution Rate**

GRS addressed the Board regarding the ASRS aggregate results and Alternate Contribution Rate (ACR) which is the amount employers pay when they rehire retired ASRS members. The calculated ACR is 9.46%.

At the conclusion of the presentation, the Board discussed the valuation report. The consensus of the Board was they agreed with GRS and staff's recommendation to accept the System valuation and the LTD valuation with a resulting LTD contribution rate of 0.16% for each the employee and employer as presented. They also agreed with staff's recommendation to incorporate the 2013 actuarial audit recommendation with an Alternate Contribution Rate of 9.36%. With regard to the Plan valuation recommendation, the Board consensus was to maintain the current contribution rate of 11.34% for each the employer and the employee, implement the 2013 actuarial audit recommendation for the Contribution Lag and Historical Pay and phase in the New Entrants in Normal Cost over the next two to three years.

The Board expressed their appreciation to Mr. Newton and Mr. Wood for the work they put into the presentation and for making it easy to understand.

**8. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events**

Mr. Paul Matson briefly explained the recent decline in the service metric in the Call Center was most significantly due to staff shortages. Positions were initially left unfilled to determine whether service metrics could be met with less staff; however, the Call Center experienced additional staff departures which created a greater deficiency. Although it has taken longer to bring the service levels up, it is expected for all service metrics to be met in December.

**9. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings**

**a. Operations and Audit Committee (OAC)**

Mr. Jeff Tyne announced the next OAC meeting will be held December 13, 2016, at 10:30 a.m. in the 14<sup>th</sup> floor conference room and will focus on the 5-Year Technology Plan, 2016 Open Enrollment update, and quarterly audit report and employer audits.

**b. External Affairs Committee (EAC)**

Dr. Richard Jacob announced the next EAC meeting will be held on December 9, 2016, at 10:30 a.m. in the 14<sup>th</sup> floor conference room and will focus on the legislative initiatives and the 2017 regulatory agenda.

**c. Investment Committee (IC)**

Mr. Jeff Tyne announced the next IC meeting is tentatively scheduled to be held on February 17, 2017 at 2:30 p.m. in the 14<sup>th</sup> floor conference room.

**10. Board Requests for Agenda Items**

No requests were made.

**11. Call to the Public**

No one from the public requested to speak at this time.

**12. The next regular ASRS Board meeting is scheduled for Friday, January 27, 2017, at 8:30 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board Room, Phoenix, Arizona.**

### **13. Adjournment of the ASRS Board**

Mr. Jeff Tyne adjourned the December 2, 2016, discussion at 10:26 a.m.

ARIZONA STATE RETIREMENT SYSTEM

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Melanie A. Alexander  
Board Administrator

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Paul Matson  
Director